MICROSOFT CORPORATION

ESTIMATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION

AS OF APRIL 30, 2006

"AGREED REDACTIONS AT THE REQUEST OF MICROSOFT"

US015_0001

Government Exhibit
45

Mr. Brad Del Matto
Senior Director of Corporate Tax Planning
Microsoft Corporation
One Microsoft Way
Redmond, WA 98052

June 19, 2006

Subject: **ESTIMATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION**

Dear Mr. Del Matto:

This report presents our estimation of the Fair Market Value, as defined below, of the enterprise value of MACSH Bermuda [redacted] and [redacted] collectively the ("Legal Entities"), as of April 30, 2006 (the Valuation Date").

As per Microsoft Corporation management ("Management"), it is our understanding that our conclusions will be used by Management for income tax purposes.

FAIR MARKET VALUE

Fair Market Value is defined as "The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale." In estimating Fair Market Value, we will assume the Entities' existing businesses to be ongoing.

The procedures used in estimating the Fair Market Value and the results of our analysis are presented in the accompanying report and exhibits.

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INDEX TO EXHIBITS

1.0 SCOPE

We estimated the Fair Market Value, as defined above, of the Legal Entities as of the Valuation Date. As per Management, it is our understanding that Management will use the results of our valuation for income tax purposes. Please note that our indication of value does not constitute a Fairness Opinion and should not be relied upon by Management in connection with the pricing of any securities, other than the intercompany tax transactions contemplated in Microsoft's Proposal to Restructure Foreign Operations.

One or more additional issues may exist that could affect the Federal tax treatment of the Legal Entities that will be the subject of this report. This report will not consider or provide a conclusion with respect to any of those issues. With respect to any significant Federal tax issue outside the scope of this report, this report is not written, and cannot be used, by anyone for the purpose of avoiding Federal tax penalties.

2.0 SOURCES OF INFORMATION

In the course of our valuation analysis, we relied upon financial and other information, including prospective financial information, obtained from Management and various public, financial, and industry sources. Our conclusion is dependent on such information being complete and accurate in all material respects. However, as is customary in the business valuation profession, the scope of our work will not enable us to accept responsibility for the accuracy and completeness of such provided information.

The principal sources of information that we used in performing our analysis include the following:

- Presentation titled "Proposal to Restructure Foreign Operations";
- EMEA Transfer Pricing Study: Study of Intercompany Transactions between Microsoft Corporation and Microsoft Subsidiaries in the EMEA Region, dated Fiscal Year Ending June 30, 2004;
- Microsoft EMEA Organization Chart as of January 1, 2004;
- Technology License Agreement dated May 1, 1999;
- Third Amended and Restated Agreement for Sharing Research and Development Costs for Retail Distribution Amended as of July 1, 2004;
- Amended and Restated Technology License Agreement dated January 1, 2003;

- Third Amended and Restated Agreement for Sharing Research and Development Costs for OEM Distribution Amended as of July 1, 2004;
- Market Development Agreement dated July 1, 1999;
- Americas Cost Sharing and Distribution through Puerto Rico Presentation;
- Second Amended and Restated Technology License Agreement dated July 1, 2005;
- Amended and Restated Agreement for Sharing Research and Development Costs dated July 1, 2005;
- Distribution Agreement dated July 1, 2005;
- Financial projections for Microsoft on a Consolidated Basis based on Excel file titled "FY06-FY09 Regional forecast for Tax Sep 12 2005 (2).xls";
- [redacted]
- [redacted]
- Financial projections for [redacted] based on Management's representations as discussed below;
- Balance Sheet for [redacted] as of March 31, 2006, which was represented by Management to be the consolidated balance sheet for [redacted] as of March 31, 2006 [redacted]
- Balance Sheet for [redacted] as of March 31, 2006 [redacted]
- Balance Sheet for [redacted] as of March 31, 2006 [redacted]
- Discussions with Management regarding operating projections for the Legal Entities for the fiscal years ending June 30, 2006 through 2018;
- Capital IQ's on-line database covering financial markets, company information, and news;
- Bloomberg's on-line database covering financial markets, commodities, and news; and
- Form 10Ks, 10Qs and other financial filings for Microsoft and comparable companies.

3.0 SIGNIFICANT MANAGEMENT REPRESENTATIONS

1. The financial and other information supplied by Management for use in the valuation analysis is complete and accurate in all material respects;

2. The assumptions used in the engagement are reasonable under the circumstances;

3. As of the Valuation Date, Management had no information contrary to the premise that the Legal Entities will be ongoing businesses operating under the current transfer pricing structure;

4. As of the Valuation Date, Management planned to operate [redacted] into perpetuity;

5. As of the Valuation Date, [redacted] did not have any declared but unpaid dividends;

6. [redacted] is a Nevada entity that is entitled to receive the buy-in payments from MACSH;

7. [redacted] is expected to have a 35% tax rate from 2006 to 2014;

8. [redacted]

9. [redacted]

10. In 2021, Management's view is that there is [redacted]

11. [redacted]; and

12. This report will not be distributed to or referenced in any document supplied to any third party without express written consent from Duff & Phelps, LLC, with the exception of Microsoft Corporation's independent auditors, the Securities and Exchange Commission, and the Internal Revenue Service.

4.0 PROCEDURES

In general, our procedures included, but were not limited to, the following:

- Analysis of conditions in, and the economic outlook for, the software industry;
- Discussions with Management concerning the history, current state, and future operations of the Legal Entities;
- Discussions with Management to obtain an explanation and clarification of data provided;
- Analysis of financial and operating projections including revenues, operating margins (e.g., earnings before interest and taxes), working capital investments, and capital expenditures based on the Legal Entities' historical operating results, industry results and expectations, and Management representations (such projections formed the basis for the Income Approach);
- Gathering and analysis of financial data for publicly traded or private companies engaged in the same or similar lines of business as Microsoft; and
- Analysis of other facts and data considered pertinent to this valuation to arrive at a conclusion of Fair Market Value.

5.0 HISTORY & NATURE OF BUSINESS[1]

Microsoft Corporation

Microsoft Corporation engages in the development, manufacture, licensing, and support of software products for various computing devices worldwide. Its Client segment offers operating systems for servers, personal computers ("PC"), and intelligent devices. The company's Server and Tools segment provides server applications and developer tools, as well as training and certification services. Its products provide messaging and collaboration, database management, e-commerce, and mobile information access capabilities. It also offers consulting services. Microsoft's Information Worker segment offers business and personal productivity software applications, including collaboration tools and document management and messaging applications for personal computers. Its Microsoft Business Solutions segment offers software solutions to manage financial, customer relationship, and supply chain management functions. Its products consist of business solutions, customer relationship management software, retail solutions, and related services. The company's MSN segment provides online communication and information services, including email and instant messaging, and online search and premium

[1] Source: Microsoft SEC Filings, Microsoft Press Releases and websites, Capital IQ, and discussions with Microsoft management.

content. It also provides Internet access, and Web and mobile services. Its Mobile and Embedded Devices segment offers mobile software platform; embedded device software platforms used in consumer electronics devices and enterprise devices; a hosted programmable XML Web service; and software platform to create telematics solutions for vehicles. Microsoft's Home and Entertainment segment offers the Xbox video game system; PC software games, online games, and console games; television platform products for the interactive television industry; and consumer software and hardware products, such as learning products and services, application software for Macintosh computers, and PC peripherals. Microsoft was founded in 1975 by William H. Gates III. The company is headquartered in Redmond, Washington.

In the fiscal year ended June 30, 2005, Microsoft generated $39.8 billion in revenue and net income of $12.3 billion. As of the Valuation Date, Microsoft's market capitalization was approximately $246.4 billion.

6.0 INDUSTRY OUTLOOK[2]

Computers: Software

The key factor driving the overall software industry is economic growth. As of October 2005, Standard & Poor's was forecasting real gross domestic product growth of 3.4% in 2006 and a continued recovery in capital spending, as measured in nonresidential fixed investment. After declining by 7.2% in 2002, investment has rebounded to increase by 3.3% in 2003, 9.4% in 2004, 8.5% in 2005, and is projected to increase 12.6% in 2006. As a result of increased capital spending, a strengthening economy, and a gradual loosening of information technology budget purse strings, analysts are projecting low to mid-single digit growth for the software industry.

Although, the overall software industry has begun to show improvement following significant declines in information technology spending, experts do not expect enterprise software to see the growth of the late 1990's again. Prior cycles characterized by boom and bust spending have given way to an increasingly disciplined approach to purchasing enterprise software as customers have begun to focus on key financial metrics such as return on investment and total cost of ownership. In addition, low cost alternatives, such as Linux or hosted customer relationship management ("CRM") software, have begun to successfully penetrate the software market. Analysts are projecting Worldwide Enterprise Application Revenues to grow from an estimated $72.9 billion in 2005 to $89.8 billion in 2009, representing a 5.4% compounded annual growth rate. The market leaders in the enterprise software arena are SAP AG, Oracle Corporation, Sage Group PLC, Microsoft Corporation and SunGard Data Systems.

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[2] Based on Standard & Poor's Computer: Software Industry Survey as of October 27, 2005.

Enterprise software is also evolving to Web Services software which allow companies to maximize the use of current infrastructure and enable a smooth transition to future technologies. The main advantage of Web Services software is that it provides a mechanism for legacy systems and new software applications to interact smoothly. The primary drivers of demand are the significant number of legacy hardware and software systems currently in place that cannot interact with new software applications. As companies continue to exercise a more disciplined spending approach, experts believe that Web Services software provides the highest return on investment and most cost-effective solution. Analysts project that the market could grow from $2.3 billion in 2004 to $14.9 billion in 2009, a 45% compounded annual growth rate.

In consumer markets, personal computer ("PC") sales are the most important indicator of consumer demand. Although worldwide PC sales experienced their first annual decline in 2001, PC unit shipments increased 14.7% in 2004, and Standard & Poor's projected year-end unit sales growth to be 8% in 2005. Experts believe that the convergence of media, entertainment, and technology will be a key factor driving consumer software, with the primary growth area being the video game sector.

Beginning in late 2005 and continuing into 2006, the next generation gaming hardware cycle has begun with Microsoft's launch of the Xbox 360 followed by Sony Corporation's expected launch of its PlayStation 3 console and Nintendo Company, Ltd.'s expected launch of Revolution later this year. Although interactive entertainment and video game software providers have been successful during recent years, analysts project that the sector will report relatively flat gains in 2005, due to the transition period, followed by double-digit growth in 2006. The top-selling video console games in 2004 were Grand Theft Auto: San Andreas, Halo 2, Madden NFL 2005, ESPN NFL 2K5, and Need for Speed Underground 2.

Finally, Microsoft is expected to reemerge as a catalyst for industry growth in 2006. Although Microsoft has performed better than its software peers during the recent IT spending downturn, the company's growth rate has slowed from 16% revenue growth in fiscal 2000 to 8% in fiscal 2005. Analysts expect the significant number of product cycles ahead for Microsoft to not only benefit the company but the industry as well. Starting in 2005 and continuing in 2006, Microsoft will introduce Xbox 360, the next version of its operating system, named Windows Vista, the latest version of Microsoft Office, new versions of SQL Server, Visual Studio, Windows Server, Windows mobile and its customer relationship management solution. While analysts do not expect growth rates of the previous cycle, they are predicting these launches could provide a significant boost to PC sales.

7.0 VALUATION APPROACHES

Generally accepted valuation practice indicates that all assets, including businesses and equity capital, should be valued using a range of methodologies but that all methodologies essentially represent variants or combinations of elements of the following approaches, which themselves are interrelated.

7.1 Income Approach

The Income Approach is a valuation technique that provides an estimation of the Fair Market Value of a business based on the cash flows that a business can be expected to generate over its remaining life. This approach begins with an estimation of the annual cash flows a prudent investor would expect the subject business to generate over a discrete projection period. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the business' projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the business at the end of the discrete projection period to arrive at an estimate of Fair Market Value.

We utilized the Income Approach in estimating the Fair Market Value of the enterprise value of the Legal Entities.

7.2 Market Approach

The Market Approach indicates the Fair Market Value of a business based on a comparison of the subject company to comparable firms in similar lines of business that are publicly traded or which are part of a public or private transaction. The Fair Market Value of a company can be estimated through the Market Comparable Method and the Market Transaction Method.

<u>Market Comparable Method</u>

The Market Comparable Method indicates the Fair Market Value of a business by comparing it to publicly traded companies in similar lines of business. The conditions and prospects of companies in similar lines of business depend on common factors such as overall demand for their products and services. An analysis of the market multiples of companies engaged in similar businesses yields insight into investor perceptions and, therefore, the value of the subject company.

After identifying and selecting the comparable publicly traded companies, their business and financial profiles are analyzed for relative similarity. Considerations for factors such as size, growth, profitability, risk, and return on investment, etc. are also analyzed and compared to the comparable businesses. Once these differences and similarities are determined and proper adjustments are made, price or market value of invested capital ("MVIC") multiples (i.e., MVIC to revenue, MVIC to earnings before interest and taxes, MVIC to cash flow, etc.) of the publicly

traded companies are calculated. These MVIC multiples are then applied to the subject company's operating results to arrive at an estimate of value.

We did not directly apply the Market Comparable Method in our analysis due to a lack of comparable publicly traded companies and significantly different tax structures between [redacted] and other publicly traded companies. However, we did compare our value conclusions to the multiples of publicly traded companies as a benchmark.

<u>Market Transaction Method</u>

One variation of the Market Approach includes indicating the Fair Market Value of a company based on exchange prices in actual transactions and on asking prices for companies currently offered for sale. The process essentially involves comparison and correlation of the subject company with other similar companies. Adjustments for differences in factors described earlier (i.e., size, growth, profitability, risk, and return on investment) are also considered.

We did not apply the Market Transaction Method in our analysis due to a lack of comparable publicly available transactions.

7.3 Cost Approach

The Cost Approach is a valuation approach that uses the concept of replacement cost as an indicator of Fair Market Value. The premise of the Cost Approach is that a prudent investor would pay no more for an asset than the amount for which the asset could be replaced. Replacement cost now, which refers to the cost to replace the property with like utility using current material and labor rates, establishes the highest amount a prudent investor would pay. To the extent that an existing asset will provide less utility than a new one, the value of that asset is less. Accordingly, replacement cost new is adjusted for loss in value due to physical deterioration, functional obsolescence, and economic obsolescence.

We did not apply the Cost Approach in our analysis due to the nature of the Legal Entities being valued.

8.0 VALUATION OF THE LEGAL ENTITIES

We utilized the Income Approach to value the Legal Entities as of April 30, 2006. In the estimation of the Fair Market Value of the Legal Entities we valued [redacted] separately. The following section details our primary assumptions in the development of the Income Approach.

8.1 [redacted]

The following assumptions, as presented in Exhibit 3.0, were made relating to the cash flow projections of [redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

Cash Flow Adjustments

- **Depreciation & Capital Expenditures** – Depreciation expenses and capital expenditures, as a percentage of revenue, were assumed to be equal based on discussions with Management.
- **Working Capital Investment** – Based on discussions with Management, [redacted]

We then applied a present value factor of 12% based on the overall expected return for Microsoft Corporation.

- **Residual Calculation** – The present value of the residual value represents the amount an investor would pay today for the rights to the cash flows of the business for years following the MACSH - Projection Period (2006 to 2020). In calculating the residual value, we used a capitalization rate of 8.6% based on the difference between the discount rate of 12.0% and the residual growth rate of 3.4%. The capitalization rate of 8.6% was applied to the residual year cash flows to calculate a residual value. We then applied a present value factor to estimate the present value of the residual value.

  Based on discussions with Management there is a 10% chance MACSH will continue to receive a favorable tax rate from the Puerto Rican tax authority after 2020. Management indicated MACSH would be shut down without the favorable tax rate. Therefore, we applied a 10% probability to the present value of the residual value to represent the amount an investor would pay today for the rights to the cash flows of the business for the years following the MACSH – Projection Period.

We summed the present value of the residual value and the sum of the present value of available cash flows for the MACSH - Projection Period to arrive at the value of the On-Going Operations of MACSH. The value of On-Going Operations of MACSH excludes the working capital adjustment required to determine the enterprise value of MACSH.

Other Adjustments

We completed the following additional steps to estimate the Fair Market Value of [redacted]

- [redacted]

Conclusion of Fair Market Value – MACSH

Based on the Income Approach as described above and as summarized in Exhibit 2.0, we estimated the Fair Market Value of the MACSH as of the Valuation Date to be approximately:

MACSH	**$ 30,403,215,000**

8.2 [redacted]

The following assumptions, as presented in Exhibit 5.0, were made relating to the cash flow projections of [redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

Cash Flow Adjustments

- **Depreciation & Capital Expenditures** – Depreciation expenses and capital expenditures, as a percentage of revenue, were assumed to be equal based on discussions with Management.
- [redacted]

We then applied a present value factor of 12% based on the overall expected return for Microsoft Corporation.

- [redacted]

[redacted]

Other Adjustments

We completed the following additional steps to estimate the [redacted]

- [redacted]

[redacted]

8.3 [redacted]

The following assumptions, as presented in Exhibit 7.0, were made relating to the cash flow projections of [redacted]

- [redacted]
-
-

Cash Flow Adjustments

- **Depreciation & Capital Expenditures** – Depreciation expenses and capital expenditures, as a percentage of revenue, were assumed to be equal based on discussions with Management.
- [redacted]

We then applied a present value factor of 12% based on the overall expected return for Microsoft Corporation.

- [redacted]

[redacted]

We completed the following additional steps to estimate the [redacted]

- [redacted]

[redacted]

9.0 CONCLUSION

The following chart summarizes the Fair Market Value of the Legal Entities as of the Valuation Date.

Valuation	Fair Market Value Summary
[redacted]	

10.0 LIMITING CONDITIONS

This document has been prepared solely for Management for the purposes stated herein and should not be relied upon for any other purpose. Unless required by law, you shall not provide such report to any third party requiring this Fair Market Value analysis, or refer to us or our services without our prior written consent, which we may at our discretion grant, withhold, or grant subject to conditions. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to which the report is disclosed or otherwise made available.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the Company's existing business records. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of the Company.

Budgets/projections/forecasts relate to future events and are based on assumptions, which may not remain valid for the whole of the relevant period. Consequently, this information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. We express no opinion as to how closely the actual results will correspond to those projected/forecast by the Company.

Full terms and conditions of our work are included in our Engagement Letter dated February 9, 2006.

Yours very truly,

Duff & Phelps LLC

Duff & Phelps, LLC

APPENDIX I – DETERMINATION OF DISCOUNT RATE

When applying the Discounted Cash Flow Method (a form of the Income Approach), the cash flows expected to be generated by a business are discounted to their present value equivalent using a rate of return that reflects the relative risk of the investment as well as the time value of money. This return is an overall rate based upon the individual rates of return for invested capital (equity and interest bearing debt). This return, known as the weighted average cost of capital, is calculated by weighting the required returns on interest-bearing debt, preferred equity capital, and common equity capital in proportion to their estimated percentages in an expected capital structure.

In determining a discount rate using the WACC, we utilized the following general formula for calculating the WACC:

WACC = Kd * (d%) + Kp * (p%) + Ke * (e%)

where:

WACC	=	Weighted average cost of capital;
Kd	=	After-tax rate of return on debt capital;
d%	=	Debt capital as a percentage of the sum of the debt, preferred and common equity capital ("Total Invested Capital");
Kp	=	Rate of return on preferred equity capital;
p%	=	Preferred equity capital as a percentage of the Total Invested Capital;
Ke	=	Rate of return on common equity capital; and
e%	=	Common equity capital as a percentage of the Total Invested Capital.

Rates of Return on Debt and Preferred Equity

The rate of return on debt capital is the rate a prudent debt investor would require on interest-bearing debt and preferred equity. Since the interest on interest-bearing debt is deductible for income tax purposes, we used the after-tax interest rate in our calculation for the return on debt. The effective income tax rate is estimated as the federal income tax rate plus the effective state income tax rate.

The after-tax rate of return on debt capital is calculated using the formula:

Kd = K x (1 - t)

where:

Kd	=	After-tax rate of return on debt capital;
K	=	Pre-tax rate of return on debt capital; and
t	=	Effective tax rate.

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The rate of return on debt capital in the industries in which Microsoft competes was estimated to be 7.0%, which reflects Standard & Poor's BBB Corporate Bond Yield as of the Valuation Date.

As interest payments on debt are deductible against tax, we calculated the after-tax required rate of return on debt capital using the effective tax rate of 35.0%. Inserting these assumptions into the above formula results in an after-tax required rate of return on debt capital of 4.5%.

Preferred equity is not deductible against tax so the required rate on preferred equity capital is the rate of return on debt capital of 7.0%.

Required Return on Equity

Capital Asset Pricing Model

The rate of return on equity capital is estimated using the Capital Asset Pricing Model ("CAPM"). CAPM has been empirically tested and is widely accepted for the purpose of estimating a company's required return on equity capital.[3] In applying the CAPM, the rate of return on common equity is estimated as the current risk-free rate of return on US Treasury bonds, plus a market risk premium expected over the risk-free rate of return multiplied by the "beta" for the stock, plus a small stock premium. Beta is defined as a risk measure that reflects the sensitivity of a company's stock price to the movements of the stock market as a whole.

The CAPM rate of return on equity capital is calculated using the formula:

$$Ke = Rf + B \times (Rm - Rf) + Ssp$$

where:

Ke	=	Rate of return on equity capital;
Rf	=	Risk-free rate of return;
B	=	Beta or systematic risk for this type of equity investment;
Rm - Rf	=	Market risk premium; The expected return on a broad portfolio of stocks in the market (Rm) less the risk free rate (Rf); and
Ssp	=	Small stock premium.

The measures used in the valuation of the Legal Entities were as follows:

CAPM Inputs	
Risk-free rate of return	5.3%
Projected Beta (Industry average):	1.24
Market Risk Premium:	5.0%
Small Stock Premium:	0.0%

[3] Investments, W.F. Sharpe. Prentice Hall: Englewood Cliffs, New Jersey (1985).

Risk-Free Rate of Return

For the risk-free rate of return, we used the yield on long-term US Treasury bonds as of the Valuation Date.

Beta[4]

Beta is a statistical measure of the volatility of the price of a specific stock relative to the movement of a general group. Generally, beta is considered to be indicative of the market's perception of the relative risk of the specific stock. We determined the appropriate beta to be used in our analysis by evaluating the betas of comparable companies of the Company.

Market Risk Premium

Practical application also relies on an estimate of the Market Risk Premium. Since the expectations of the average investor are not directly observable, the Market Risk Premium must be inferred using one of several methods. One approach is to use premiums that investors have historically earned over and above the returns on long-term Treasury bonds. The premium obtained using the historical approach is sensitive to the time period over which one calculates the average. Depending on the time period chosen, the historical approach yields an average premium in a range of 5.0% to 8.0%. Several forward-looking studies indicate a range of 3.0% percent to 8.0% and various surveys of practitioner's usage indicate 4.0% to 7.0%. Thus, considering a range of 3.0% to 8.0% from the various approaches (i.e. historical, forward-looking, and practitioner's usage) we then applied a 5.0% premium.

Premium for Small Size

The CAPM rate of return can be adjusted by a premium that reflects the extra risk of an investment in a small company. This premium is derived from historical differences in returns between small companies and large companies, using data published by Ibbotson Associates. Based on the size of Microsoft, a small stock premium was not applied in calculating the CAPM rate of return.

WACC Conclusion

Based on the method described above, we estimated that typical investors may require a WACC of 11.0% for an investment in Microsoft. Details of the WACC are presented in Exhibit 8.0. Furthermore, we also calculated a market based expected return calculation (internal rate of return) for Microsoft using Microsoft's market capitalization on the Valuation Date and projections of revenue and expenses for Microsoft on a consolidated basis. The expected return for Microsoft based on this analysis was estimated to be 12%. We have concluded that 12% is an appropriate discount rate to use for the analysis, as it reconciles to the expected return for Microsoft on a consolidated basis and is consistent with the independently calculated WACC.

[4] All betas used in the analysis are projected betas provided by BARRA, Inc.

MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
SUMMARY OF VALUES
($000s)

EXHIBIT 1.0
PAGE 1 OF 1

LEGAL ENTITY	CONCLUSION OF FAIR MARKET VALUE	EXHIBIT
[redacted]		3.0
		4.0
		6.0
Fair Market Value Conclusion	[redacted]	

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MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
BUSINESS ENTERPRISE VALUATION OF [redacted]
($000s)

EXHIBIT 2.0
PAGE 1 OF 1

	INDICATED VALUE (1)	WEIGHT	WEIGHTED VALUE	EXHIBIT
[redacted]				
INCOME APPROACH	[redacted]	100%	[redacted]	3.0
BUSINESS ENTERPRISE VALUE (MARKETABLE, CONTROLLING BASIS)			[redacted]	

Footnotes:
(1) Marketable, Controlling Basis

US015_0024

[redacted]

[redacted]

US015_0025

[illegible] CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF [illegible] CORPORATION
AS OF APRIL [illegible]
[illegible] [redacted]
[illegible]

[illegible]

[redacted]

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MICROSOFT CORPORATION — EXHIBIT 3.0

VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION — PAGE 3 OF 3

AS OF APRIL 30, 2006

BUSINESS ENTERPRISE VALUATION OF [redacted]

($000s)

[redacted]

Balance Sheet

- Total cash short-term investments
- Other current assets
- Long-term assets
- Total assets

- Other current liabilities
- Short-term unearned revenue
- Other long-term liabilities
- Total stockholders' equity
- Total liabilities & stockholder's equity

Net Working Capital Calculation

- Current Assets
- Debt-Free Operating Liabilities
- Debt-Free Working Capital

Footnotes:
(1) Based on information provided by Management.

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MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
BUSINESS ENTERPRISE VALUATION OF [redacted]
($000s)

EXHIBIT 4.0
PAGE 1 OF 1

	INDICATED VALUE (1)	WEIGHT	WEIGHTED VALUE	EXHIBIT
[redacted]				
INCOME APPROACH	[redacted]	100%	[redacted]	5.0
BUSINESS ENTERPRISE VALUE (MARKETABLE, CONTROLLING BASIS)			[redacted]	

Footnotes:
(1) Marketable, Controlling Basis

US015_0028

[illegible]
[illegible] [redacted] [redacted]

[redacted]

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MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
BUSINESS ENTERPRISE VALUATION OF [redacted]
(COMMON SIZE)

EXHIBIT [illegible]
(PAGE [illegible])

	Projections - For the Fiscal Years Ending June 30													
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Residual

[redacted]

US015_0030

MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
BUSINESS ENTERPRISE VALUATION OF [redacted]
($000s)

EXHIBIT 5.0
PAGE 3 OF 3

[redacted]

Balance Sheet
- Total cash short-term investments
- Other current assets
- Long-term assets
- Total assets

- Other current liabilities
- Short-term unearned revenue
- Other long-term liabilities
- Total stockholders' equity
- Total liabilities & stockholder's equity

Net Working Capital Calculation

- Current Assets
- Debt-Free Operating Liabilities
- Debt-Free Working Capital

Footnotes:
(1) Based on information provided by Management.

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MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
BUSINESS ENTERPRISE VALUATION OF [redacted]
($000s)

EXHIBIT 6.0
PAGE 1 OF 1

	INDICATED VALUE [1]	WEIGHT	WEIGHTED VALUE	EXHIBIT
[redacted]				
INCOME APPROACH	[redacted]	100%	[redacted]	7.0
BUSINESS ENTERPRISE VALUE (MARKETABLE, CONTROLLING BASIS)			[redacted]	

Footnotes:
(1) Marketable, Controlling Basis

[redacted]

US015_0032

MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN [illegible] OF MICROSOFT CORPORATION
AS OF APRIL [illegible]
[illegible] ENTERPRISE VALUE [illegible] [redacted] [redacted]
[illegible]

EXHIBIT [illegible]
PAGE [illegible]

[illegible]

[redacted]

US015_0033

MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
BUSINESS ENTERPRISE VALUATION OF [redacted]
COMMON SIZE

EXHIBIT 7.0
PAGE 2 OF 3

	Projections - For the Fiscal Years Ending June 30								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
[redacted]									

US015_0034

MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
BUSINESS ENTERPRISE VALUATION OF [redacted]
($000s)

EXHIBIT 7.0
PAGE 3 OF 3

Balance Sheet
- Total cash short-term investments
- Other current assets
- Long-term assets
- Total assets

- Other current liabilities
- Short-term unearned revenue
- Other long-term liabilities
- Total stockholders' equity
- Total liabilities & stockholder's equity

Net Working Capital Calculation
- Current Assets
- Debt-Free Operating Liabilities
- Debt-Free Working Capital

[redacted]

Footnotes:
(1) Based on information provided by Management.

US015_0035

MICROSOFT CORPORATION
VALUATION OF THE FAIR MARKET VALUE OF CERTAIN ENTITIES OF MICROSOFT CORPORATION
AS OF APRIL 30, 2006
WEIGHTED AVERAGE COST OF CAPITAL (WACC)
SUMMARY OF WACC ANALYSIS

EXHIBIT 8.0
PAGE 1 OF 2

Required Return on Debt:

Before Tax Cost of Debt:[1]	7.0%
Less: Tax Deduction at 35%	2.4%
After Tax Cost Of Debt	4.5%

Required Return on Preferred Equity:[1] 7.0%

Required Return on Common Equity:

Capital Asset Pricing Model:

Re = Rf + Beta x MRP + SSP

5.3% + 1.24 x 5.0% + 0.0% = 11.5%

Where:
Re = Required Return on Equity
Rf = Risk-free Rate of Return[2]
Beta = Beta for the Subject Company's Industry[3]
MRP = Market Risk Premium[4]
SSP = Small Stock Premium[5]

Concluded Return on Common Equity 11.5%

WACC Calculation

	Required Return		Weighting		WACC
Required Return on Debt Capital	4.5%	x	0.5%	=	0.0%
Required Return on Preferred Equity Capital	7.0%	x	0.0%		0.0%
Required Return on Equity Capital	11.5%	x	99.5%	=	11.4%
					11.4%

WEIGHTED AVERAGE COST OF CAPITAL (ROUNDED)	**11.0%**

Notes:
(1) Standard & Poor's BBB corporate bond yield
(2) The yield on long-term Treasury notes as of the valuation date
(3) Based on the company specific BARRA beta.
(4) The expected return on S&P 500 companies less the expected return on long-term Treasury securities, based on historical rates of return and published data on expected stock returns.
(5) Expected additional return on smaller companies, based upon historical market data published by Ibbotson Associates.

US015_0036

US015_0037